

# The Center for Local, State, and Urban Policy

Gerald R. Ford School of Public Policy >> University of Michigan

Michigan Public  
Policy Survey **September 2013**

**DRAFT -**

## Michigan local government fiscal health continues gradual improvement, but smallest jurisdictions lagging

By Thomas Ivacko, Debra Horner, and Michael Crawford

This report presents Michigan local government leaders' assessments of their jurisdictions' fiscal conditions and the actions they are taking in response to ongoing and widespread fiscal challenges. The findings are based on responses from five statewide survey waves of the Michigan Public Policy Survey (MPPS) conducted annually each spring from 2009 through 2013.

>> The Michigan Public Policy Survey (MPPS) is conducted by the **Center for Local, State, and Urban Policy (CLOSUP)** at the University of Michigan in partnership with the **Michigan Association of Counties, Michigan Municipal League, and Michigan Townships Association**. The MPPS takes place twice each year and investigates local officials' opinions and perspectives on a variety of important public policy issues. Respondents for the MPPS this wave include county administrators and board chairs, city mayors and managers, village presidents and managers, and township supervisors, clerks, and managers from 1,329 jurisdictions across the state.

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## Key Findings

- Although hundreds of jurisdictions across the state continue to experience declining fiscal health, the 2013 MPPS finds an ongoing trend of overall improvement that first emerged in 2011.
  - » Overall, 29% of jurisdictions say they are *better* able to meet their financial needs this year, while another 29% say they are *less* able to do so. This is a significant improvement from the low point in 2010, when just 9% were better able and 61% were less able to meet their needs.
  - » The latest findings show the most improvement in Michigan's larger jurisdictions. In those with more than 30,000 residents, the percentage saying they are better able to meet their needs grew from 36% in 2012 to 44% in 2013, while the percentage saying "less able" fell from 47% in 2012 to just 33% today.
- Declining property tax revenues are still reported by 48% of all local governments, but this is down from 64% in 2012. Larger jurisdictions are more likely than smaller ones to report improvements in these revenues.
- Demands for public services (e.g. infrastructure and public safety) continue to increase, with half (50%) of all jurisdictions across the state, and 71% of the largest jurisdictions, saying they have increased infrastructure needs this year.
- Local governments continue to pursue a variety of actions to improve their fiscal status, including shifting health care costs to be paid increasingly by their employees. But as fiscal health appears to be improving overall, they are slightly less likely than in the past to plan for cutting services, increasing their reliance on general fund balances to plug budget gaps, or increasing intergovernmental collaboration with other jurisdictions for joint service sharing.
- Looking to the future, more officials predict that their communities will have good times financially in the coming year (36%) than predict bad times (18%). But they also express ongoing concerns about their jurisdictions' fiscal health, with 30% feeling it will be worse a year from now while 28% feel it will be better. This may reflect their concerns about the economy as well as previously expressed concerns that Michigan's system of funding local governments won't provide the revenues needed to meet future service demands.

## Positive trends for local fiscal health continue in larger jurisdictions, but level off among smaller ones

The Michigan Public Policy Survey (MPPS) has now gathered five years of data on the fiscal health of Michigan's local governments, covering a period of sharp economic decline in 2009 and 2010, followed by a new trend of gradual improvement that first emerged in 2011. The 2013 survey finds that positive trend continues overall, but at a slower rate than in the last two years. And despite the improvement seen by many jurisdictions, the 2013 MPPS also finds that fiscal health continues to decline for hundreds of other jurisdictions across the state.

The MPPS's summary question regarding changes in fiscal health asks local leaders whether their jurisdictions are *better able* or *less able* to meet their financial needs now compared to the prior year. Overall, the percentage of local governments reporting that they are now better able to meet their fiscal needs (29%) is the same as for those reporting they are less able to do so (29%). Another 41% report no significant change from last year. At its low point in 2010, 61% of local jurisdictions reported declining fiscal health compared to the previous year. The trend of improvement that began in 2011 and continues into 2013 is evident in *Figure 1*.

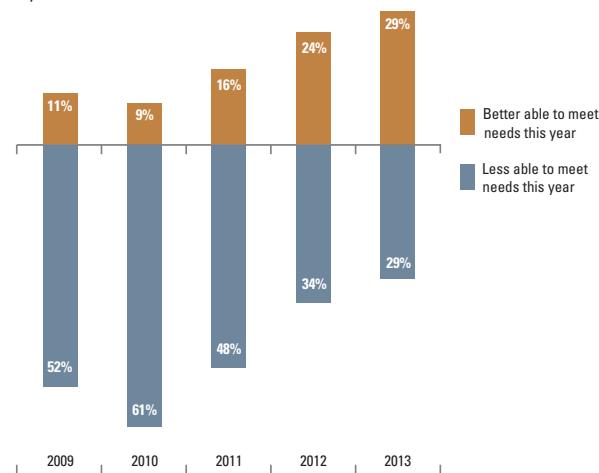
Still, the 29% of jurisdictions reporting they are in continued fiscal decline in 2013 represents approximately 538 local governments across Michigan. Despite overall improvements, the state has a long way to go to establish robust local fiscal health.

The latest findings are relatively more positive among larger jurisdictions than among smaller ones. Among the smallest jurisdictions — those with fewer than 1,500 residents — 25% report an increase in their ability to meet fiscal needs in 2013 (up from 18% who responded this way in 2012), but a third (34%) still report declining ability to meet their needs (see *Figure 2*). Distress among these smallest jurisdictions is found particularly in the central and southern regions of the Lower Peninsula, with 39% in those regions saying they are less able to meet their fiscal needs, compared with 26% in the Upper Peninsula and northern Lower Peninsula saying the same. The greater distress among the smallest jurisdictions in the central and southern Lower Peninsula reflects numerous fiscal indicators where they lag their peers, such as decreases in property taxes and state aid, and increases in foreclosures.

By comparison, among the largest jurisdictions — those with more than 30,000 residents — 44% say they are better able to meet their fiscal needs this year (up from 36% in 2012), while 33% report they are less to do so. A year ago, nearly half (47%) of the state's largest jurisdictions said they were in a state of fiscal decline.

**Figure 1**

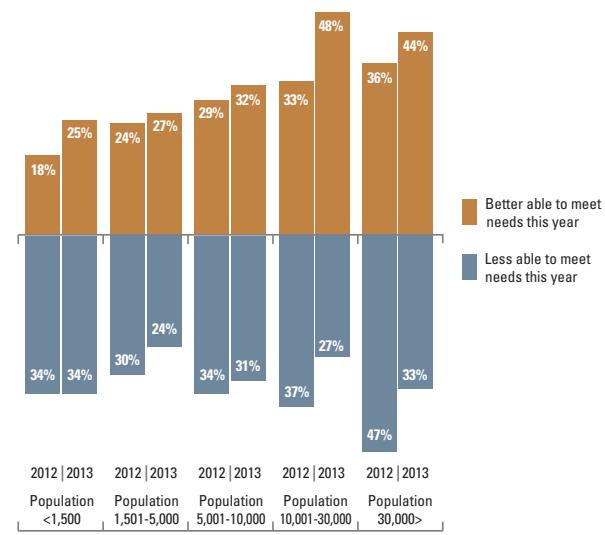
Percentage of jurisdictions overall reporting they are better or less able to meet their fiscal needs in current year compared to previous year, 2009-2013



*Note: responses for "neither better nor less able" and "don't know" not shown*

**Figure 2**

Percentage of jurisdictions reporting they are better or less able to meet their fiscal needs in current year compared to previous year, 2012-2013, by population size



*Note: responses for "neither better nor less able" and "don't know" not shown*

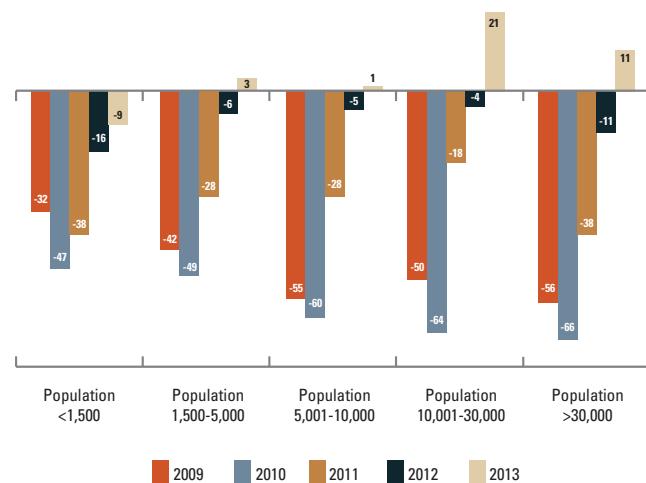


Figure 3 presents a combined summary of these changes over the last 5 years, by showing the “net” percentage of jurisdictions in each population-size category saying they were better able to meet their needs *minus* the percentage that were less able. Any bar below the zero-axis shows that more jurisdictions in that category reported declining fiscal health than improving health in a given year. Conversely, any bar above the zero-axis shows more jurisdictions in that category in improving fiscal health than in declining health (found only in 2013). Thus, as seen in Figure 2 above, among the largest jurisdictions in 2013, 44% report improving health while 33% report declining health, resulting in a “net” positive of 11% which is then displayed as the final bar in Figure 3.

A great deal of information is packed into Figure 3. For instance, the deeper negative bars in 2010 compared to 2009 show the surge of fiscal stress during that time for all types of jurisdictions. Since 2011, things have been getting better for all types of jurisdictions, overall, but they’ve been getting better at differing rates for jurisdictions of different sizes. Local officials report that fiscal health has been improving more commonly in Michigan’s larger jurisdictions than in its smallest ones. As of 2013, only the state’s smallest jurisdictions are still in a “net negative” status, with more of them continuing to report fiscal decline than fiscal improvement (34% vs. 25%, respectively, as shown in Figure 2), particularly driven by distress among the smallest jurisdictions in the central and southern Lower Peninsula.

**Figure 3**

Net fiscal health change: percentage of jurisdictions reporting improving fiscal health minus percentage reporting declining health, 2009-2013, by population size



## Property tax revenue improves overall, yet continues to fall for almost half of jurisdictions

Although fiscal health overall has been improving since 2011, many jurisdictions continue to face serious fiscal challenges. Among the most difficult of these is the continuing decline in property tax revenues, which are generally the most important source of funding for local governments. Overall, nearly half (48%) of the state's jurisdictions continue to report declines in revenue from property taxes this year.

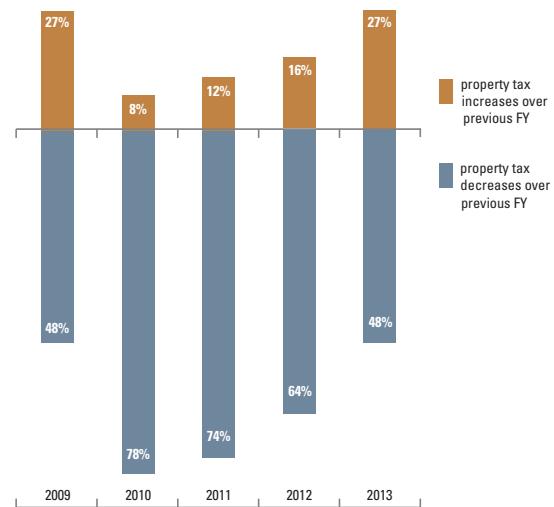
While property tax revenue declines continue to be a problem for many jurisdictions, *Figure 4* again shows that this problem has been less and less common in each of the last three years. Not only do fewer jurisdictions continue to report *declines* in property taxes (from 78% in 2010 down to 48% in 2013), but *more* jurisdictions now report outright growth in tax revenues as well (from 8% in 2010 to 27% in 2013).

*Figure 5* shows that different rates of improvement in property tax revenues may be one of the key reasons that there have been greater gains in fiscal health in the past year among the state's larger jurisdictions than in the smaller ones. The percentage of the smallest jurisdictions reporting year-over-year growth in these revenues in 2013 only increased by three percentage points from the prior period (from 19% in 2012, to 22% in 2013), while there was a 21 percentage point increase among the largest jurisdictions (from 15% in 2012, to 36% in 2013).

The incidence of declining property tax revenue has now evened out among communities of different sizes as of 2013, with around half of the state's jurisdictions, large and small, reporting declines in property tax revenue. Jurisdictions with 10,000-30,000 residents are least likely to report declines in property tax in 2013, with 44% saying they've seen declines this year, whereas 79% said the same thing in 2012.

**Figure 4**

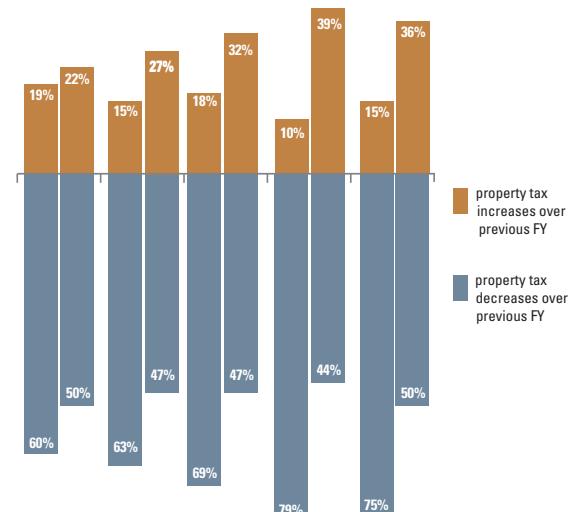
Percentage of jurisdictions overall reporting changes in property tax revenue compared with previous fiscal year, 2009-2013



Note: responses for "no change" and "don't know" not shown

**Figure 5**

Percentage of jurisdictions reporting changes in property tax revenue compared with previous fiscal year, 2012-2013, by population size



Note: responses for "no change" and "don't know" not shown



## Officials continue to report reductions in state aid, but fewer do so than last year

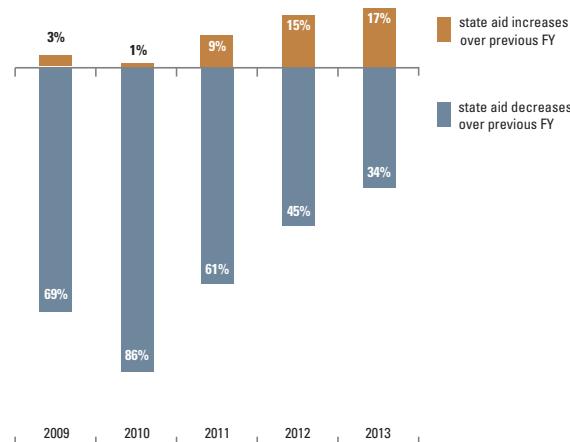
In addition to property tax declines, reductions in state aid have been another key fiscal challenge for local governments over the last decade, and they continue to affect a third (34%) of jurisdictions in 2013, according to local leaders (see *Figure 6*). However, reported declines in state aid were at their worst in 2010, when 86% of jurisdictions reported the problem, and have been on an easing trend since then.

Decreases in state aid are found most frequently among Michigan's largest jurisdictions, 58% of which reported the problem this year (see *Figure 7*). Jurisdictions with 1,500 to 5,000 residents continue to be the least likely (27%) to report decreases in state aid in 2013.

Meanwhile, although fewer jurisdictions overall report continued declines in state aid in 2013, reports of actual *increases* to state aid remain low and essentially unchanged overall from 2012. Just 17% of jurisdictions report increased state aid during the current fiscal year, compared to 15% in 2012.

**Figure 6**

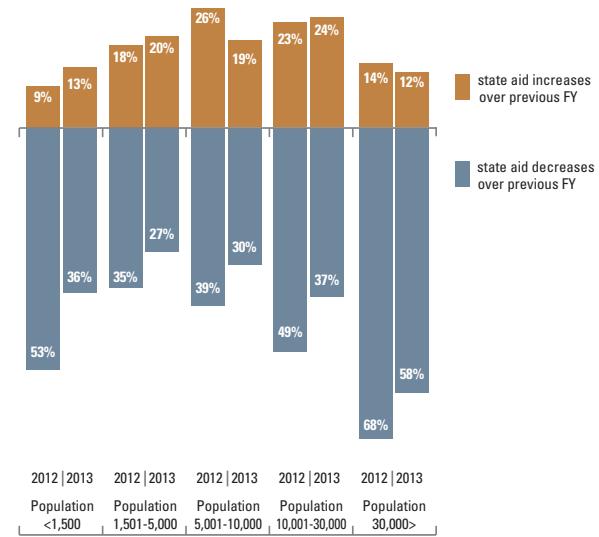
Percentage of jurisdictions overall reporting changes in state aid compared with previous fiscal year, 2009-2013



*Note: responses for "no change" and "don't know" not shown*

**Figure 7**

Percentage of jurisdictions reporting changes in state aid compared with previous fiscal year, 2012-2013, by population size



*Note: responses for "no change" and "don't know" not shown*

## Foreclosures and tax delinquencies continue to ease

In another sign of improving fiscal health, fewer local officials across the state say they are seeing a rise in home foreclosures in their communities this year (29%) than said so last year (41%). The 29% reporting increased foreclosures in 2013 is down by half from the 60% who reported increasing foreclosures back in 2010 (see *Figure 8*).

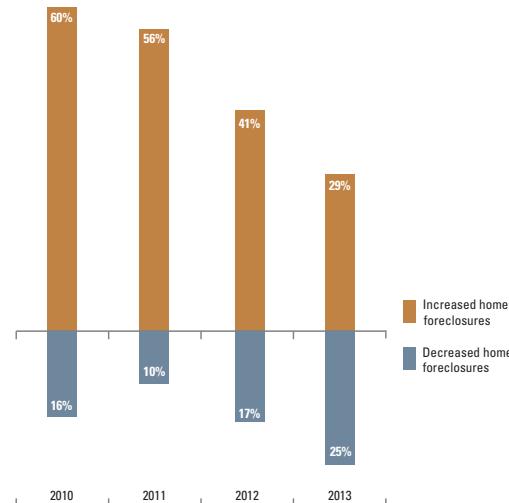
Yet, even after the three year trend of improvement, there are still more jurisdictions overall with rising numbers of foreclosures (29%) than with declining numbers (25%).

While jurisdictions of all sizes are less likely to report continued increases in foreclosures in 2013, again there are significant differences by jurisdiction size. For example, while a third (33%) of the smallest jurisdictions report continued increases in foreclosures, only 23% of the largest jurisdictions say the same (see *Figure 9*). And while just 13% of the smallest jurisdictions report outright *decreases* in home foreclosures in 2013, 39% of jurisdictions with populations larger than 30,000 residents say they are seeing fewer foreclosures this year.

In addition, tax delinquency can be another significant challenge to local governments' fiscal health. Three in ten local jurisdictions statewide (30%) still report increasing tax delinquencies as of 2013, although this too is down from previous years. Larger jurisdictions (26%) are more likely to report that the incidence of tax delinquencies in their jurisdictions is decreasing over the previous year's levels, compared with between 11% and 15% of other jurisdictions across the state.

**Figure 8**

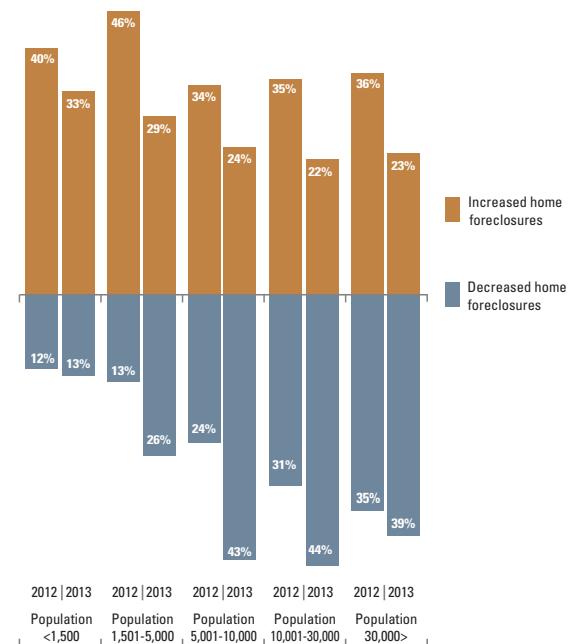
Percentage of jurisdictions overall reporting changes in home foreclosures compared with previous fiscal year, 2010-2013



*Note: responses for "no change" and "don't know" not shown*

**Figure 9**

Percentage of jurisdictions reporting changes in home foreclosures compared with previous fiscal year, 2012-2013, by population size



*Note: responses for "no change" and "don't know" not shown*



## Increases in service demands and spending pressures persist, though some easing in human service needs are reported

Although, as seen above, larger jurisdictions are more likely to report improvements in many indicators of fiscal health in 2013, they are also more likely to report continuing pressures for spending on a variety of services. While many jurisdictions report continuing increased service demands, officials from the largest jurisdictions are the most likely to report these spending pressures, as seen in *Figures 10a-10c* below.

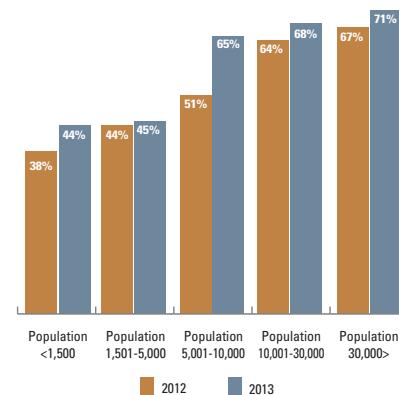
Across the state there is little easing evident among local governments when it comes to the need for infrastructure spending. Half (50%) of all jurisdictions across the state say their infrastructure needs have increased compared to the previous year, and this is up from 45% that said the same in 2012. Only jurisdictions with 1,500-5,000 residents report no statistically significant increase in infrastructure needs this year, while jurisdictions with 5,001-10,000 residents are considerably more likely to report an increase in infrastructure services demands this year (see *Figure 10a*). Only 3% of all jurisdictions say they've experienced an actual decrease in their infrastructure needs in 2013.

Overall, 29% of jurisdictions report an increase in human service needs in 2013, while 1% report an actual decrease, and 57% report no significant change from the previous year. Jurisdictions of most population sizes experienced higher growth in human service needs in 2012 than in 2013. The exception is among jurisdictions with over 30,000 residents, which report that human service needs continue to rise in 2013 even beyond the growing needs experienced in 2012 (see *Figure 10b*).

In addition, 29% of Michigan jurisdictions overall also report continued increases in public safety needs in 2013. With slight variation, most jurisdictions are experiencing about the same increase in needs that they experienced in 2012, while larger jurisdictions continue to report the greatest need for expanded public safety services (see *Figure 10c*). Only 3% of jurisdictions statewide say that they've seen an actual decrease in the need to spend on public safety services.

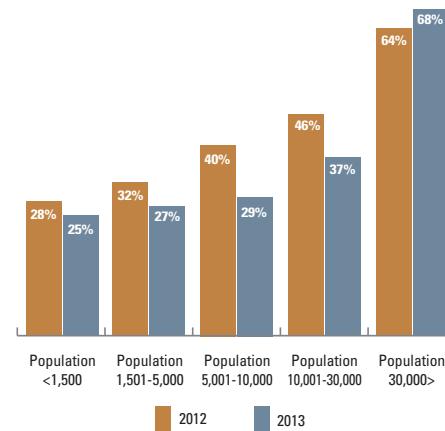
**Figure 10a**

Percentage of jurisdictions reporting increases in infrastructure needs compared with previous fiscal year, 2012-2013, by population size



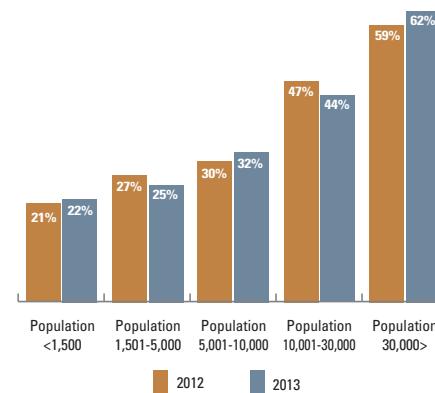
**Figure 10b**

Percentage of jurisdictions reporting increases in human service needs compared with previous fiscal year, 2012-2013, by population size



**Figure 10c**

Percentage of jurisdictions reporting increases in public safety needs compared with previous fiscal year, 2012-2013, by population size



## Local jurisdictions continue to report increased health care and pension costs

Concerns about local government fiscal challenges often focus on health care benefit costs, pensions, and other legacy costs. Only 45% of Michigan's jurisdictions statewide report on the MPPS that they offer fringe benefits to their current employees (with smaller governments being least likely either to have any employees or to offer benefits to employees they do have). But for those jurisdictions that provide benefits, many continue to report ongoing increases in employee and retiree benefit costs.

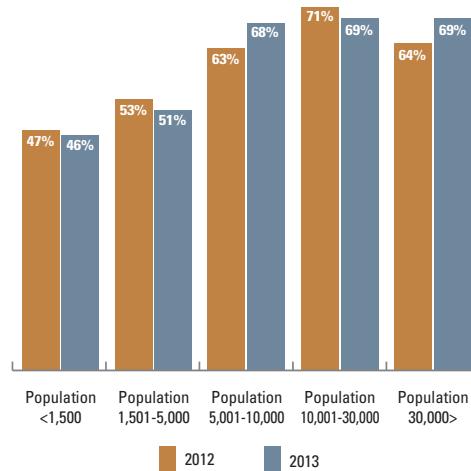
Among those jurisdictions that report offering some kind of fringe benefits to employees, 57% overall report that health care costs for current employees increased this year, while 14% say their costs have decreased compared to 2012. Jurisdictions with more than 5,000 residents in particular report their health care costs are continuing to rise, with about 69% reporting increases in current employee health care costs in 2013 (see *Figure 11a*). However even among smaller jurisdictions, about half report health care costs rising again in 2013.

Similarly, among those jurisdictions that offer pension benefits, most jurisdictions report increases in their costs, over and above the increases experienced in 2012, including six in ten (60%) of the largest jurisdictions (see *Figure 11b*).

Additional analysis of trends in local government employment policy will be available in a separate CLOSUP report to be released later in the year.

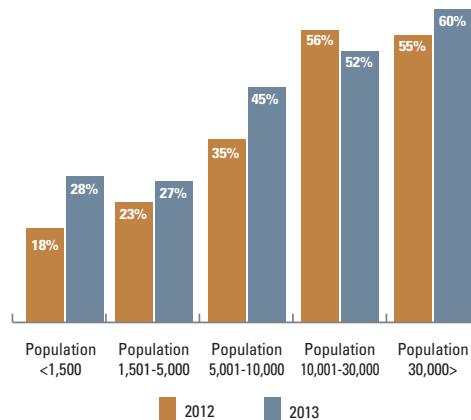
**Figure 11a**

Percentage of jurisdictions reporting increases in health care costs for current employees, 2012-2013, by population size, among those that provide health care benefits



**Figure 11b**

Percentage of jurisdictions reporting increases in pension costs, 2012-2013, by population size, among those that provide retirement benefits





## Large jurisdictions are slightly less concerned about general fund balances and cash flow than last year

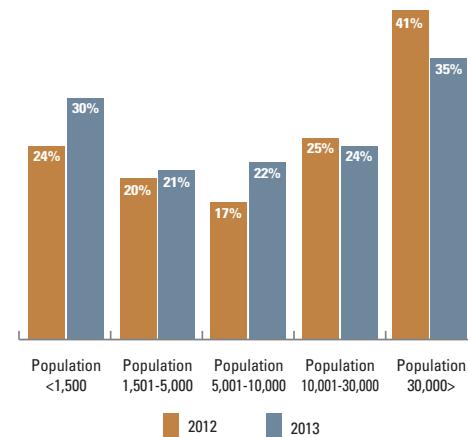
In response to the Great Recession and its aftermath, when revenues were falling while costs continued to rise, many local governments in Michigan previously reported drawing on their general fund balances in order to cover budget gaps.<sup>1</sup> At its peak, 49% of jurisdictions reported increasing their reliance on their unreserved general fund balances in 2010.

As an indicator of fiscal health, the MPPS asks local leaders whether they consider their jurisdiction's unreserved general fund balance to be too high, about right, or too low. On the 2013 MPPS survey, the majority (59%) of local officials overall respond that their current fund balances are at about the right levels, even after significant reliance on these funds by many jurisdictions since 2009. However, in the smallest jurisdictions, 30% of officials believe their fund balances are now too low, and this is up from 24% who felt this way in 2012. On the other hand, while even more leaders—35%—from the state's largest jurisdictions believe their fund balances are currently too low, this is down from 41% who felt this way a year ago (see *Figure 12*). In other words, these fund balances appear to be getting worse in the smallest jurisdictions, but improving in largest ones.

Meanwhile, cash flow provides another indicator of improvement in the state's larger jurisdictions. Overall, only 8% of jurisdictions of any size report that cash flow is either somewhat of a problem or a significant problem, equal to the level responding this way in 2012. However, the percentage of local leaders expressing concerns over cash flow dropped in the larger jurisdictions between 2012 and 2013 (see *Figure 13*). In jurisdictions with 10,001-30,000 residents, the percentage saying cash flow is either somewhat of a problem or a significant problem dropped from 11% in 2012 to 6% in 2013, while the percentage that said cash flow is not a problem at all grew from 59% in 2012 to 71% in 2013. And in the largest jurisdictions, the percentage of leaders expressing cash flow concerns fell by 9 percentage points, from 20% in 2012, to 11% in 2013.

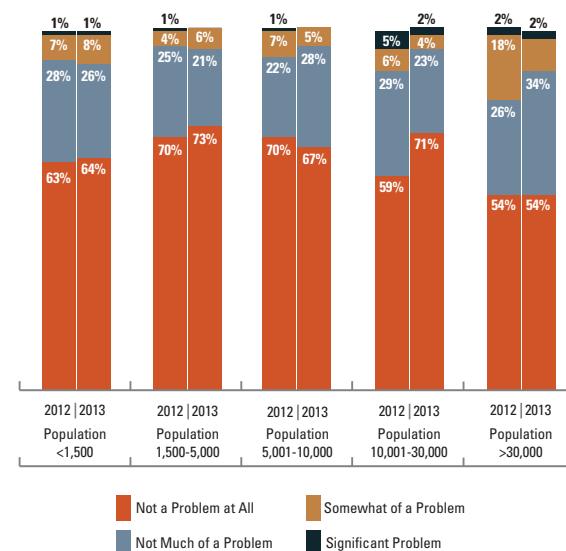
**Figure 12**

Percentage of officials saying their general fund balance is too low, 2012-2013, by population size



**Figure 13**

Officials' assessments cash flow, 2012-2013, by population size



*Note: responses for "don't know" not shown*

## Plans for the coming year: fewer expect to increase their reliance on fund balances compared to past years

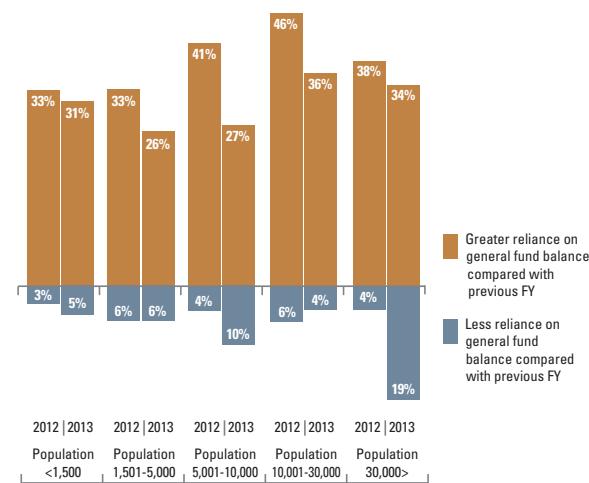
Now turning to the future, 30% of Michigan local jurisdictions overall report plans to once again increase their reliance on their general fund balances in the year ahead, but this is down from about 35% that responded this way in 2012 and 2011, and is down significantly from the 49% that responded this way in 2010. (It is worth noting that, in 2013, 3% of jurisdictions report having *no* general fund balances available at the end of their last fiscal year, including 8% of the state's largest jurisdictions.)

Whether or not a jurisdiction plans to increase its reliance on its general fund balance is correlated with the jurisdiction's fiscal status. Among jurisdictions that are significantly less able to meet their fiscal needs today, 57% expect to *increase* their reliance on existing general fund balances to help plug budget gaps, while just 11% plan to decrease this reliance. By comparison, among jurisdictions that are significantly better able to meet their fiscal needs, only 18% expect to increase reliance on their general fund balances in the coming year, while 19% plan to decrease this reliance.

*Figure 14* illustrates that communities of every size are less likely to be planning a greater reliance on their general fund balances in the coming year, compared to their plans in 2012. In fact, 19% of the state's largest jurisdictions plan to rely less on their general fund balances this year, more than among any other jurisdiction size.

**Figure 14**

Percentage of jurisdictions reporting planned changes to reliance on general fund balance in the coming year, 2012-2013, by population size





## Plans for the coming year: addressing personnel costs

For many jurisdictions personnel costs can be one of the largest budget expenses, and many local governments have cut these expenses over the last five years through a variety of steps, from cutting staff levels, to reducing pay and benefits for new hires, shifting health care and retirement costs to be paid increasingly by employees, and more. Over the last year, 16% of all Michigan jurisdictions say they decreased the number of their employees, including nearly half (48%) of Michigan's largest jurisdictions. Looking ahead, larger jurisdictions are more likely to report planning further reductions in staffing levels, through either decreased hiring, leaving vacant positions unfilled, or increased layoffs (see *Figure 15*). However, most jurisdictions say they plan to hold steady on their workforce levels in the coming year, with 85% overall planning no change in hiring, and 93% planning no change in layoffs.

Meanwhile, many local leaders predict that shifting the jurisdiction's fringe benefit costs to be paid increasingly by its employees will again be a strategy employed in the upcoming year, particularly targeting their current employees' contributions to health care costs. In addition to cutting the jurisdictions' costs, this strategy is encouraged through the State of Michigan's Economic Vitality Incentive Program (EVIP), and so its use can help secure state shared revenue for the jurisdiction.<sup>2</sup> Among jurisdictions that offer some kind of fringe benefits to their employees, 46% plan to have those employees cover more of their own health care costs in the coming year, including 77% of the state's largest jurisdictions (see *Figure 16*). Many jurisdictions are also planning to increase their employees' share of retirement contributions, as well as asking retired employees to take on more of their own health care costs.

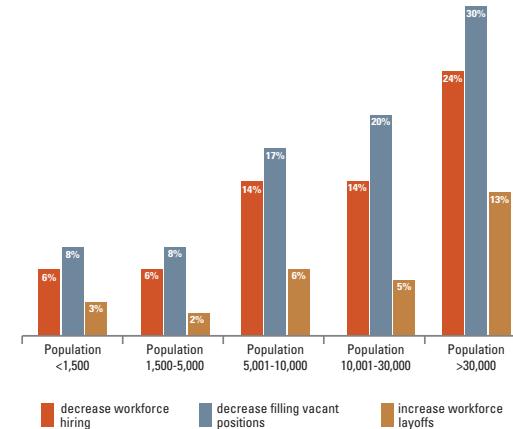
On the other hand, many jurisdictions are planning to increase employee pay rates in the coming year, whether because of better financial positions as a result of easing fiscal pressures, or because increases to employee pay have been delayed during the aftermath of the Great Recession. Among jurisdictions with 10,000-30,000 residents, over half (55%) report plans to increase employee pay this year, while only 6% say they plan to decrease it (see *Figure 17*).

These plans are also correlated with the jurisdictions' fiscal status. Expected pay rate increases are almost twice as likely in jurisdictions that are significantly better able to meet their financial needs this year (45%), as in jurisdictions that are significantly less able to do so (23%).

And not all public workers will get raises: 20% of jurisdictions statewide also report they will be reducing pay rates and/or benefits packages for new hires, compared to their current employee compensation rates, including 52% of the state's largest jurisdictions.

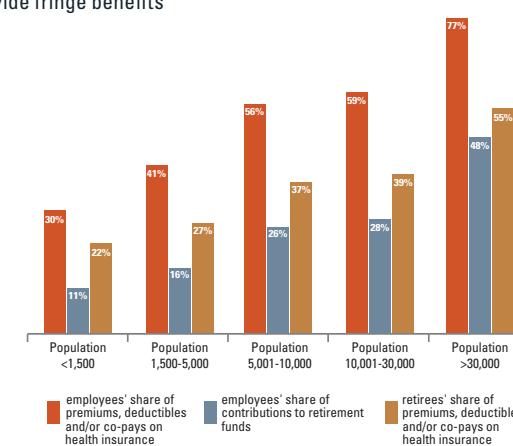
**Figure 15**

Percentage of jurisdictions reporting planned changes to staffing in the coming year, among those that have employees



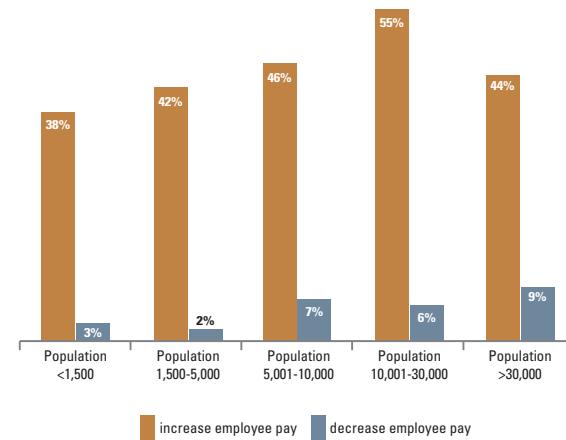
**Figure 16**

Percentage of jurisdictions reporting planned increase in employees' share of contributions to benefits in the coming year, among those that provide fringe benefits



**Figure 17**

Percentage of jurisdictions reporting planned changes to employee pay in the coming year, among those that have employees



## Plans for the coming year: expected increases to property tax rates now more common than decreases

As the most important source of funding local government, the drop in property tax revenues over the last few years has been a primary source of fiscal stress for jurisdictions of all types and sizes. Now, as the economy continues its slow recovery from the Great Recession, the 2013 MPPS finds that more local jurisdictions expect to increase their property tax rates than expect to decrease them, for the first time since 2009. During the worst period of fiscal stress in 2010, 32% of jurisdictions expected to decrease their property tax rates while just 10% expected to increase them. Looking ahead, as of the 2013 MPPS, 22% of jurisdictions now expect to increase their rates, while just 12% expect to decrease them.

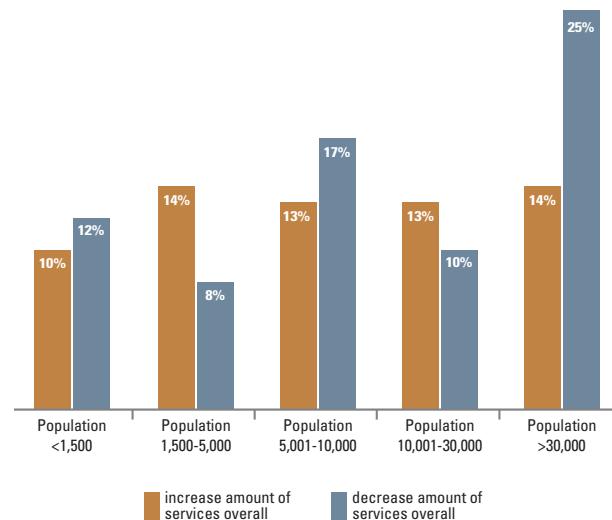
## Plans for the coming year: fewer ongoing increases in intergovernmental cooperation and privatization, less cutting of services than in recent years

Cutting the amount of services provided has been a fairly common action among local governments in the past few years, to cut costs and help close budget gaps. At its peak in 2010, 29% of all jurisdictions planned to cut services (including 63% of the largest jurisdictions), while just 7% planned to increase service levels. Looking ahead now, many jurisdictions expect to continue providing essentially the same levels of services to their citizens that they have provided this past year. Only 12% of local governments overall plan to cut back on the amount of services they provide in the coming year, while another 12% plan to increase the amount of services they provide.

Despite the overall stable outlook for service levels, there are differences by jurisdiction size. Compared to the 12% of Michigan's smallest jurisdictions that plan to cut services this year, 25% of the state's largest jurisdictions plan such cuts (see *Figure 18*).

**Figure 18**

Percentage of jurisdictions reporting planned changes in service provision in the coming year, by population size



And yet, while larger jurisdictions are more likely to cut services in the coming year than are small jurisdictions, the state's larger jurisdictions are still in better shape on this front than they were a year ago. For example, among jurisdictions with 10,000-30,000 residents, only 10% plan service cuts in the coming year, whereas 19% planned such cuts when asked in 2012. Similarly, while 25% of jurisdictions with over 30,000 residents predict service cuts now, a year ago 34% of such jurisdictions were planning service cuts.

In addition to cutting back levels of service, local governments sometimes decide to completely eliminate a particular service and no longer provide it at any level. Only 6% of jurisdictions overall took this more extreme action last year, although this includes nearly a quarter (22%) of Michigan's largest jurisdictions. Looking ahead, 12% of the largest local governments also plan to completely eliminate at least one service in the coming year, but this is down from 21% who predicted the same in 2012.

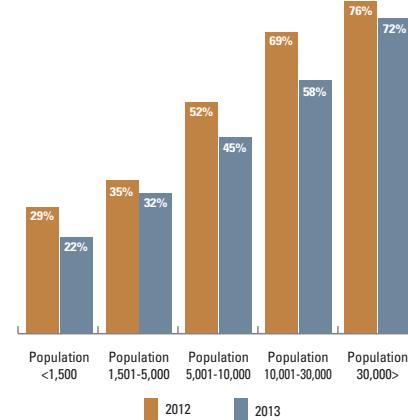


Overall, 34% of Michigan local jurisdictions expect to increase the number and/or scope of their cooperative service sharing activities with other governments in the coming year. Across jurisdictions of all sizes, fewer officials predict further expansion of such cooperative activities this year, compared to findings from last year, when 40% overall expected to boost such approaches to service delivery (see Figure 19).

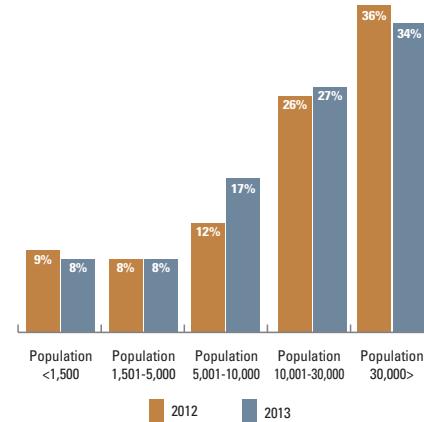
At the same time, plans to privatize, or outsource, service provision are mostly holding steady compared with 2012 (see Figure 20). Overall, 12% of jurisdictions expect to increase service privatization efforts in the coming year, while just 1% expect to decrease these efforts, the same percentages as found last year. When broken down by population size, there are few statistically significant changes in privatization plans compared to last year, with only mid-size jurisdictions of 5,000-10,000 residents expecting even greater increases in their levels of outsourcing in the coming year compared to their plans from last year.

**Figure 19**

Percentage of jurisdictions reporting plans to increase number and/or scope of interlocal agreements next year, 2012-2013, by population size

**Figure 20**

Percentage of jurisdictions reporting plans to increase privatization next year, 2012-2013, by population size



## Looking ahead, more officials see good financial times for their communities, but concerns linger over their jurisdictions' fiscal health

Many indicators presented above show improved expectations for fiscal health compared to years past, and this brightening outlook is also tied to some extent to growing optimism about where the economy is headed. The MPPS asks respondents to think about general business conditions in their communities and to predict whether their community will have good times or bad times financially in the next twelve months. The 2013 survey shows continued growth in the number of officials predicting good times economically rather than bad times in the coming year. More than a third of local officials (36%) predict their communities will have good times financially in the coming year, compared with 18% who predict bad times (see *Figure 21*). This continues a step-wise improvement found in each successive year of the MPPS surveys so far

The highest levels of optimism about improving economic times are found among officials from the state's largest jurisdictions. Among jurisdictions with more than 10,000 residents, over half believe that their communities will have good financial times ahead. By contrast, officials from only 28% of the state's smallest jurisdictions have the same confidence (see *Figure 22*).

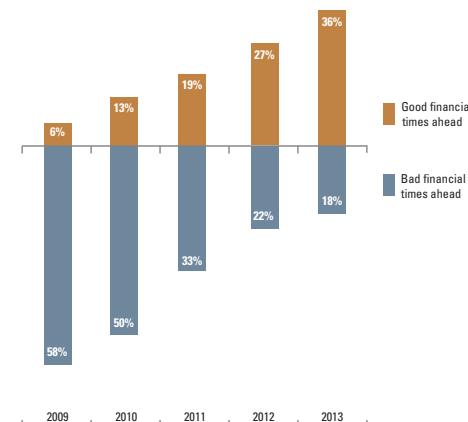
Looking forward, the MPPS also asks local officials to predict whether their local government will be better able or less able to meet its financial needs in the next year compared to the current year. Overall, one-third (30%) of local leaders predict their jurisdictions will be somewhat or significantly *less* able to meet fiscal needs next year compared to this year, a slight decline from 2012, when 34% of officials predicted this kind of fiscal decline. By comparison, 28% say they will be better off next year compared to this, which is up from 22% who said the same in 2012.

In other words, while fiscal health outlooks are improving compared to the past, overall, it is still the case that more jurisdictions expect to be in worse fiscal health next year than expect to be in better fiscal health. These concerns may be tied to local leaders' concerns about the economy, as well as their beliefs that the system of funding local government in Michigan needs significant reform in order for revenues to keep pace with rising service demands and costs.<sup>3</sup>

Furthermore, while larger jurisdictions now have a "net" positive outlook on their fiscal health next year, small jurisdictions still have a "net" negative outlook (see *Figure 23*).

**Figure 21**

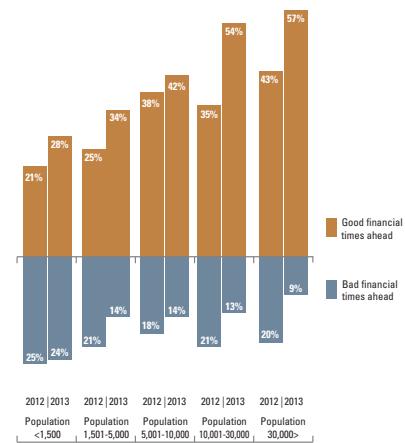
Percentage of jurisdictions overall predicting their community will have good or bad times financially, 2009-2013



Note: responses for "neither" and "don't know" not shown

**Figure 22**

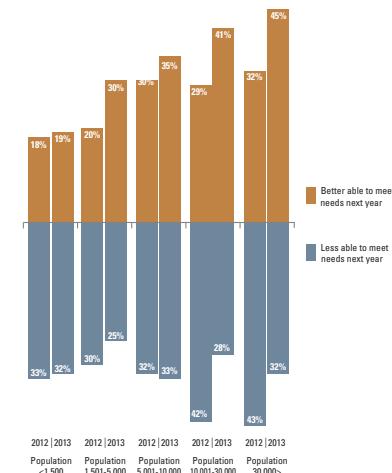
Percentage of jurisdictions predicting their community will have good or bad times financially, 2012-2013, by population size



Note: responses for "neither" and "don't know" not shown

**Figure 23**

Percentage of jurisdictions predicting they will be better or less able to meet their fiscal needs in coming year, 2013, by population size





## Conclusion

The MPPS finds that the easing trends in many indicators of local government fiscal stress that first emerged in 2011 continue for a third year in 2013, with significant reductions in the percentage of local officials who say their jurisdictions are less able to meet their financial needs than they were previously. Overall, there are as many jurisdictions now reporting that they are better able to meet their needs this year (29%) as there are jurisdictions reporting a lesser ability to meet those needs (29%).

Throughout the 5 years of MPPS fiscal health surveys, the state's larger jurisdictions have often tended to show higher levels of fiscal challenges, compared to smaller jurisdictions, at any given point in time. In addition, the local government fiscal crisis (first documented on the MPPS with the inaugural fiscal survey in 2009) spread from the state's larger jurisdictions and was subsequently found in 2010 among many more jurisdictions of all sizes, all across the state. Since the 2011 MPPS survey, however, the state's larger jurisdictions appear to be experiencing fiscal health improvements more commonly than small jurisdictions, with significantly reduced reports, for example, of declining property tax revenues, increasing home foreclosures, or greater reliance on unreserved general fund balances. On these and other indicators, the state's smaller jurisdictions—particularly those in the central and southern regions of the Lower Peninsula—now appear to be lagging somewhat behind.

## Notes

1. Center for Local, State, and Urban Policy. (2012, September). *Fiscal stress continues for hundreds of Michigan jurisdictions, but conditions trend in positive direction overall*. Ann Arbor, MI: Center for Local, State, and Urban Policy at the Gerald R. Ford School of Public Policy, University of Michigan. Retrieved from <http://closup.umich.edu/michigan-public-policy-survey/18/fiscal-stress-continues-for-hundreds-of-michigan-jurisdictions-but-conditions-trend-in-positive-direction-overall/>
2. Michigan Department of Treasury. (2012). *Economic Vitality Incentive Program (EVIP)*. Lansing, MI: Michigan Department of Treasury. Retrieved from [http://www.michigan.gov/treasury/0,1607,7-121-1751\\_2197-259414--,00.html](http://www.michigan.gov/treasury/0,1607,7-121-1751_2197-259414--,00.html)
3. Center for Local, State, and Urban Policy. (2013, January). *Local leaders support reforming Michigan's system of funding local government*. Ann Arbor, MI: Center for Local, State, and Urban Policy at the Gerald R. Ford School of Public Policy, University of Michigan. Retrieved from <http://closup.umich.edu/michigan-public-policy-survey/22/local-leaders-support-reforming-michigans-system-of-funding-local-government/>

## Survey background and methodology

The MPPS is a biannual survey of each of Michigan's 1,856 units of general purpose local government, conducted once each spring and fall. While the spring surveys consist of multiple batteries of the same "core" fiscal, budgetary and operational policy questions and are designed to build-up a multi-year time-series of data, the fall surveys focus on various other topics.

In the Spring 2013 iteration, surveys were sent by the Center for Local, State and Urban Policy (CLOSUP) via the internet and hardcopy to top elected and appointed officials (including county administrators and board chairs, city mayors and managers, village presidents and managers, and township supervisors, clerks, and managers) from all 83 counties, 277 cities, 256 villages, and 1,240 townships in the state of Michigan.

The Spring 2013 wave was conducted from April 8 - June 9, 2013. A total of 1,350 jurisdictions in the Spring 2013 wave returned valid surveys, resulting in a 73% response rate by unit. The margin of error for the survey as a whole is +/- 1.4%. The key relationships discussed in the above report are statistically significant at the p<.05 level or below, unless otherwise specified. Missing responses are not included in the tabulations, unless otherwise specified. Some report figures may not add to 100% due to rounding within response categories. Data are weighted to account for non-response. Contact CLOSUP staff for more information.

Detailed tables of the data analyzed in this report — by jurisdiction type (county, city, township, or village); by population size of the respondent's community; and by the region of the respondent's jurisdiction—are available online at the MPPS homepage: <http://closup.umich.edu/mpps.php>

*The survey responses presented here are those of local Michigan officials, while further analysis represents the views of the authors. Neither necessarily reflects the views of the University of Michigan, or of other partners in the MPPS.*

## Appendix A

Conditions in 2013 compared to the previous year

Description	<1500		1500-5000		5001-10000		10001-30000		>30000		Total	
	Percentage Reporting	Rank										
<b>Increase in infrastructure needs</b>	44%	2	45%	2	65%	1	68%	2	71%	1	50%	1
<b>Decrease in revenue from property tax</b>	50%	1	47%	1	47%	3	44%	5	50%	9	48%	2
<b>Decrease in amount of state aid to jurisdiction</b>	36%	3	27%	6	30%	6	37%	7	58%	7	34%	3
<b>Increase in cost of current government employee health benefits</b>	19%	11	25%	8	57%	2	69%	1	68%	2	31%	4
<b>Increase in number of tax delinquencies</b>	31%	6	31%	3	27%	10	28%	11	27%	11	30%	5
<b>Increase in human service needs</b>	25%	8	27%	5	29%	8	37%	8	68%	3	29%	6
<b>Increase in public safety needs</b>	22%	9	25%	9	32%	5	44%	6	62%	4	29%	7
<b>Increase in home foreclosures in jurisdiction</b>	33%	5	29%	4	24%	12	22%	12	23%	12	29%	8
<b>Decrease in revenue from fees, licenses, transfers, etc.</b>	28%	7	26%	7	25%	11	17%	14	22%	13	26%	9
<b>Decrease in population of jurisdiction</b>	33%	4	24%	10	21%	15	17%	13	18%	14	25%	10
<b>Increase in cost of government employee pensions</b>	16%	12	18%	11	39%	4	52%	3	59%	6	24%	11
<b>Decrease in amount of federal aid to jurisdiction</b>	19%	10	15%	12	24%	13	29%	12	51%	8	21%	12
<b>Increase in cost of retired government employee health benefits</b>	5%	16	10%	15	29%	7	48%	4	61%	5	16%	13
<b>Decrease in number of employees</b>	9%	14	11%	14	27%	9	33%	9	48%	10	16%	14
<b>Increase in amount of debt</b>	12%	13	13%	13	22%	14	12%	15	14%	15	14%	15
<b>Decrease in ability of jurisdiction to repay its debt</b>	6%	15	7%	16	7%	16	4%	16	3%	16	6%	16

**Appendix B**

Predicted actions for the coming year

Language	<1500		1500-5000		5001-10000		10001-30000		>30000		Total	
	Percentage Reporting	Rank										
<b>Increase in number and/or scope of interlocal agreements or cost-sharing plans</b>	22%	2	32%	1	45%	2	58%	2	72%	2	34%	1
<b>Increase in reliance on general fund balance</b>	31%	1	26%	2	27%	3	36%	4	34%	7	30%	2
<b>Increase in employees' share of premiums, deductibles and/or co-pays on health insurance</b>	12%	6	20%	4	48%	1	60%	1	77%	1	27%	3
<b>Increase in property tax rates</b>	18%	4	23%	3	25%	5	33%	5	17%	15	22%	4
<b>Increase in charges for fees, licenses, etc.</b>	15%	5	20%	5	24%	6	43%	3	35%	5	21%	5
<b>Increase in reliance on rainy day funds</b>	18%	3	18%	6	19%	9	22%	9	25%	10	19%	6
<b>Increase in retirees' share of premiums, deductibles and/or co-pays on health insurance</b>	8%	11	10%	8	26%	4	32%	6	53%	3	15%	7
<b>Increase in jurisdiction's amount of debt</b>	11%	8	15%	7	23%	7	21%	10	18%	14	15%	8
<b>Increase in employees' share of contributions to retirement funds</b>	6%	13	10%	9	23%	8	27%	7	48%	4	13%	9
<b>Increase in privatizing or contracting out services</b>	8%	10	8%	11	17%	10	27%	8	34%	6	12%	10
<b>Decrease in amount of services provided</b>	12%	7	8%	12	17%	11	10%	17	25%	9	12%	11
<b>Decrease in actual infrastructure spending</b>	9%	9	8%	10	13%	14	12%	14	20%	13	10%	12
<b>Increase in jurisdiction not filling vacant positions</b>	5%	15	6%	15	14%	12	18%	11	30%	8	9%	13
<b>Decrease in jurisdiction's workforce hiring</b>	5%	16	6%	16	14%	13	14%	13	24%	11	8%	15
<b>Decrease in funding for economic development programs</b>	7%	12	7%	13	9%	16	12%	15	8%	20	8%	14
<b>Decrease in actual public safety spending</b>	6%	14	7%	14	11%	15	10%	16	21%	12	7%	16
<b>Increase in sale of public assets (i.e., parks, buildings, etc.)</b>	4%	17	5%	17	8%	17	16%	12	9%	19	6%	17
<b>Decrease in actual human services spending</b>	2%	20	5%	18	5%	20	5%	20	13%	16	4%	18
<b>Increase in jurisdiction's workforce layoffs</b>	2%	19	2%	19	6%	19	5%	19	13%	17	3%	19
<b>Decrease in employee pay rates</b>	2%	18	2%	20	7%	18	6%	18	9%	18	3%	20

## Previous MPPS reports

Local leaders evaluate state policymaker performance and whether Michigan is on the right track (August 2013)

Trust in government among Michigan's local leaders and citizens (July 2013)

Citizen engagement in the view of Michigan's local government leaders (May 2013)

Beyond trust in government: government trust in citizens? (March 2013)

Local leaders support reforming Michigan's system of funding local government (January 2013)

Local leaders support eliminating Michigan's Personal Property Tax if funds are replaced, but distrust state follow-through (November 2012)

Michigan's local leaders satisfied with union negotiations (October 2012)

Michigan's local leaders are divided over the state's emergency manager law (September 2012)

Fiscal stress continues for hundreds of Michigan jurisdictions, but conditions trend in positive direction overall (September 2012)

Michigan's local leaders more positive about Governor Snyder's performance, more optimistic about the state's direction (July 2012)

Data-driven decision-making in Michigan local government (June 2012)

State funding incentives increase local collaboration, but also raise concerns (March 2012)

Local officials react to state policy innovation tying revenue sharing to dashboards and incentive funding (January 2012)

MPPS finds fiscal health continues to decline across the state, though some negative trends eased in 2011 (October 2011)

Public sector unions in Michigan: their presence and impact according to local government leaders (August 2011)

Despite increased approval of state government performance, Michigan's local leaders are concerned about the state's direction (August 2011)

Local government and environmental leadership: views of Michigan's local leaders (July 2011)

Local leaders are mostly positive about intergovernmental cooperation and look to expand efforts (March 2011)

Local government leaders say most employees are not overpaid, though some benefits may be too generous (February 2011)

Local government leaders say economic gardening can help grow their economies (November 2010)

Local governments struggle to cope with fiscal, service, and staffing pressures (August 2010)

Michigan local governments actively promote U.S. Census participation (August 2010)

Fiscal stimulus package mostly ineffective for local economies (May 2010)

Fall 2009 key findings report: educational, economic, and workforce development issues at the local level (April 2010)

Local government officials give low marks to the performance of state officials and report low trust in Lansing (March 2010)

Local government fiscal and economic development issues (October 2009)



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The **Center for Local, State, and Urban Policy (CLOSUP)**, housed at the University of Michigan's Gerald R. Ford School of Public Policy, conducts and supports applied policy research designed to inform state, local, and urban policy issues. Through integrated research, teaching, and outreach involving academic researchers, students, policymakers and practitioners, CLOSUP seeks to foster understanding of today's state and local policy problems, and to find effective solutions to those problems.

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